

Town of Bedford Finance Committee

Town Hall, Selectmen's Meeting Room

October 23, 2014

Members in attendance: Tom Busa, Steve Carluccio, Elizabeth McClung, Paul Mortenson, Barbara Perry, David Powell, Steve Steele (Chair), Ben Thomas.

Others in attendance: Karen Dunn, *Capital Expenditures*; Margot Fleischman, *Selectmen (Chair)*; Victor Garofalo, *Director of Finance and Collector/Treasurer*; Michael McAllister, *School Committee*; Bill Moonan, *Selectmen*; Jessica Porter, *Assistant Town Manager*; Rick Reed, *Town Manager*.

FY2015 Budget: Mr. Garofalo focused on the New Growth number in FY15, saying it had the potential to be as high as \$2.3M. The Assessors hope to have the amount verified by the Dept. of Revenue by Special Town Meeting but are comfortable saying now that it will be at least \$1.9M. Plugging \$1.9M into the model, Mr. Garofalo said, "leaves a \$434,000 surplus above and beyond the Unused Levy capacity of \$1.5M. There could be an additional \$400,000 on top of that [if all \$2.3M comes in]. [At this point], we have to make a decision about what to do with that \$434,000."

Mr. Garofalo said that the Fiscal Planning Committee had recently discussed the potential for a tax burden shift that would give some relief to the Commercial/Industrial sector, now taxed at 175% of the residential rate. "What we looked at was.... taking that 175% down to a 173% and how that would impact the residential [tax burden]. We could use additional Unused Levy capacity so that there's no impact to the residential taxpayer. That's what we're thinking about for the additional \$400,000, when it comes."

Mr. Garofalo asked FinCom to consider what to do with the initial \$434,000. The Stabilization Fund is now at a relatively comfortable 3.5% of the Operating Budget (within the policy target window of 2-6%) and an additional \$200,000 to be voted at STM would raise that percentage to 3.6 or 3.7.

Mr. Busa said, "When you look at how Bedford has always been 'first'—like with Community Preservation, the Pension Trust Fund, putting funds away for health care—why don't we be the first town that doesn't automatically take the 2 ½% increase in taxes? I think most of the people in this town would like to see their property tax bill stop climbing through the roof."

Mr. Garofalo said he was unsure of the legality of not increasing by 2 ½% .

Continuing his line of thinking, Mr. Busa said the budget model could start with the assumption that no additional funds were needed rather than with the assumption that everything would go up. "Let's start with zero and then actually see if we need money. Maybe we won't need any more." Mr. Busa clarified that he was talking about the FY16 budget model, not FY15.

Explaining what he and Town Manager Reed were suggesting for FY15, Mr. Garofalo said that, if the Commercial/Industrial tax rate of 175% was lowered, more of the burden would fall on the Residential sector, as was the case in the recent economic downturn when the business sector declined and buildings became vacant. His and Mr. Reed's proposal would use the \$434,000 currently known from New Growth and apply it so that the Residential sector is shielded from the shift.

Mr. Garofalo then showed a chart that demonstrated how a shift down from 175% would play out in two scenarios: 174% and 173%. In the current case with the Commercial/Industrial rate at 175%, the residential tax increase, on average, is at 1.7% (although home values are also going up 8.9%). If the C/I rate is lowered to 174%, the impact on the Residential side would raise the increase from 1.7% to 2%. If the C/I rate is lowered to 173%, the impact on the Residential side would be raised from 1.7% to 2.4%.

“But, if we were to lower [the C/I] to 174% and raise the Unused Levy capacity enough to keep the Residential [increase at 1.7%], we would go from a Unused Levy capacity of \$1.5 to an Unused Levy capacity of \$1.7. That would leave the percentage increase on the Residential side the same.” Extrapolating further, Mr. Garofalo said that if the burden shifted from 175% to 173%, the Unused Levy capacity would have to be raised to \$1.8M in order to keep the Residential increase at 1.7%.

Mr. Garofalo said that Mr. Reed has been in discussions with the business sector and those discussions lead him to understand that a lower rate would be welcomed. Neighboring towns with which Bedford competes to attract businesses have a variety of rates: Billerica, 175%; Lexington, 172%; Burlington, 165%. In Concord, all sectors share the same burden across the board.

Mr. Carluccio reasoned that if tax increases could be less than 2 ½ % , taxes going forward would increase from a lowered base; if the money was left in the Unused Levy, however, that one-year lower tax break could be wiped out. “In the levy, it’s a tax break for that year. The next year you could use all the levy and then grow 2 ½%. You are increasing the base if you leave it in the levy; you’re not if you only have that line item at 2% [instead of 2 ½%].”

Mr. Carluccio asked if the Mitre offset amount could be listed in a separate line item from the Unused Levy. Mr. Garofalo cautioned that using the term “Mitre offset” has previously caused problems with perception.

Town Manager Reed arrived at this point in the meeting.

Ms. Perry made the point that the actual dollar amount of a tax bill—whether C/I or residential— is determined by the valuation of the property. Even though some towns have rates lower than 175%, the bills could be higher if the valuations are higher.

Mr. Reed said that businesses do look at commercial tax rates before locating to a specific town but most businesses select locations because of the suitability of the property. “That being said, we are trying to fill up the vacant space that we’ve had. Anything we can do to make space attractive is a big step.”

Ms. McClung said that, as with residential real estate comparisons, the question is one of value. “If you can get a better value in Town X, even though the rate’s higher, you’re going to end up paying lower taxes. The rate alone doesn’t really tell you; it’s the assessed value. ”

Mr. Reed said that Bedford primarily competes with Billerica and Burlington for office space, except for the Wiggins Ave. area which competes with Lexington.

Mr. Garofalo clarified that the decision about whether or not to lower the C/I rate was a Selectmen’s

decision, not a FinCom decision. “If the Selectmen did decide they want to decrease the rate, how can we balance it out?”

With Mr. Reed now in attendance to answer the question of legality, Mr. Powell asked whether it would be possible to reduce the 2 ½% tax increase to a lower percentage, thus giving a permanent tax break and providing a lower base from which to move forward.

Mr. Reed replied that the Town could leave as much as it wants to in Unused Levy but could not change the 2 ½% increase.

“The base automatically increases by 2 1/2% by law, but you’re not forced to tax [to the full extent],” replied Mr. Reed.

“So, the offset is in the tax levy,” concluded Mr. Steele.

Asked whether other towns maintain an Unused Levy capacity, Mr. Reed said he could easily provide that information for the Committee. Ms. Perry said she would not propose to do what other towns do but would weigh the different possibilities to find the right choice for Bedford.

Mr. Garofalo said that FinCom could propose to do “all of the above” with the budget surplus: reduce the C/I rate, give back to the Residential sector, and put money aside for Stabilization/Rainy Day. He cautioned that putting it all toward a one-year tax break could result in giving taxpayers a sudden spike a later year when finances aren’t as robust.

Mr. Thomas said he was leaning toward letting people keep more of their money. “We hammered the tax bills pretty hard over the last bunch of years. We have the cash [to give some relief] this year.”

Ms. Perry said it was important to recognize that, just because there was extra money didn’t mean it had to be spent. “In fact, it means we have to be more thoughtful about what we do with it, because we do have a choice.”

Mr. Thomas asked Mr. Moonan what the Selectmen thought about the proposed C/I tax shift. Mr. Moonan said his board had not yet discussed it. Mr. Reed said the conversation would take place at the tax classification hearing on November 17 and added the information just presented to FinCom had only been developed in the last week.

Ms. Perry said, given the relatively flush year, it was reasonable to address the tax shift now. Mr. Reed added that the shift would provide future flexibility in case fiscal necessity compelled the Town to shift the burden back toward the C/I to shield residential taxpayers. Mr. Garofalo pointed out that a lower rate might attract more business to town which would, in turn, bring in additional revenue to the base and further alleviate the burden shouldered by current taxpayers.

Since more complete information about new growth will soon be forthcoming, the consensus of the Committee was to wait to decide how to use the additional \$434,000 and the possible \$400,000.

FY16: Mr. Garofalo said the FY16 model being presented was a “first pass”, based on a few assumptions.

Assumptions:

- \$800,000 in New Growth (a number proposed by the Assessors.)
- No new debt
- Level-funded Local Receipts
- A drop in homeless student numbers (transportation costs lowered by \$25,000)
- Sewer revenue increase of 3%
- Free cash placeholder of \$2M “but will be higher”. The actual amount will be certified this week.
- State aid level-funded at \$6,156,208. Info from the State informs this total.
- Federal input aid \$200,000 [part of the two-pronged [Federal and State] payment for Hanscom students. Mr. Garofalo suggests State aid for Hanscom student education be put in the Town budget and that the School budget be offset by the amount, rather than have the funds go directly to the Schools as is now the case.
- Overlay reserve=\$850,000
- Flat State assessment
- Snow deficit placeholder to start with \$250,000 (an average of past years). Last year the total was \$383,051.
- Operating budgets flat to start, except for a *decrease* in the Finance department due to the \$30,000 added to the FY15 base for emergency computer array replacement. Also, Abatement Interest in the Assessors’ Department has been lowered from \$75,000 to \$50,000.
- Health insurance increase= 5%
- Retirement Assessment increase = 8%
- Medicare and General insurance both increased 4%
- Debt Service increasing only for the Town Hall project. Future years FY17 and FY18 will show a greater debt impact from the TH project.
- Roads up from \$600,000 to \$650,000. FinCom said it preferred—for the sake of consistency—roads be level-funded , for the time being, knowing the amount would be revisited again and again.
- VocEd increased 3.6% to \$575,000 based on sustained headcount of 24-28 students.
- Audit contractor increased fee by \$1,000.
- Sick Leave buyback placeholder of \$25,000. Mr. Garofalo will do an analysis to determine if the fund total is adequate to the expected need.
- OPEB liability increased by 2.5% as per policy.
- Merit article has not been applied yet so current amount of \$148,625 remains in the line item.
- An additional \$100,000 in Stabilization. The fund is now \$3M.
- Unchanged Ambulance Enterprise subsidy.

Mr. Garofalo has added a line to the model called “Lincoln Students”. He explained that the newly-renovated housing on base is now being rented to retired military and currently includes two students with the potential for more.

“It’s our position that those students are in Lincoln and should be educated in Lincoln. But, there’ve been some talks and those students might be educated in Bedford but Lincoln would reimburse us.

There are some sticking points with regards to SpEd: what if those students needed services? – the Town doesn't want to be on the hook for \$100,000 in SpEd. We're still in negotiations. It's our position, if we are paid by Lincoln, that it should be Local Receipt money....The School budget that you're voting is paying for those kids and that money should come in to the General Fund. ”

On the subject of water and sewer rates, Ms. McClung said she has some serious concerns about ongoing water system problems and continued flushing. “I'm concerned that we're spending \$200,000 a year [for flushing to deal with the total coliform bacteria problem.] I want to know why we haven't fixed this. It's such a waste of resources. Why isn't this a #1 priority?”

Ms. Perry said the water issues had also recently been discussed at CapEx. “Adrienne St. John, the Town Engineer, said that [the hydrants by the middle school that you're talking about] is near the end of the line. The water is warm. There's not an easy solution.... She said it's not that much water—although for someone who lives near it or is walking through it, it seems like a lot.”

Mr. Reed responded to Ms. McClung's concerns by stressing that the water is safe and has never been unsafe, although total coliform bacteria readings do indicate the possibility that harmful bacteria might form. “It's recommended practice by the Dept. of Environmental Protection to flush a water system twice a year. We do it on a regular basis. We have some areas where we have dead ends and the water doesn't circulate very well so it has more potential to create bacteria but nothing's been unsafe....We're trying to eliminate the biofilm build-up that occurs and the reason it happens is, if you don't keep your infrastructure up to date, the interior of the really old pipes gets corroded and it provides a lot of surface area for things to catch on [and develop.]

“We're essentially going through the town and attacking the oldest areas first,” Mr. Reed continued. “We'll continue to do that in the next-oldest areas and you'll probably see this as an on-going program, although not to the same degree as the last few years. We did it even before we had problems but it didn't receive as much attention. It's just a natural part of maintaining your water infrastructure.”

Mr. Reed said that next summer, the pipes in middle school area would probably be addressed.

Mr. Garofalo said he has asked Mr. Sorenson to present about the water issues once more at the same November meeting when he'll presents about roads.

Mr. Powell asked Mr. Reed to comment on the number of total coliform readings, saying he believed they'd become less frequent as work on the system progressed. Mr. Reed concurred, saying that readings were about 1/3 this year of what they had been at their peak. “We are making progress in terms of getting rid of those kinds of readings,” Mr. Reed said. “That's reflecting the strategy of addressing the oldest pipes first.” He added that the new mixing systems in the water tanks on Pine Hill and Crosby Drive had helped prevent “water stratification”.

Whether to keep Stabilization at a level percentage was briefly debated. Members argued for and against adopting the practice. The subject will be revisited.

Capital article: The FY16 model also proposes a Capital article totaling \$2M compared to this year's \$1.5M. “We're putting the number out there so you can see what we're thinking,” said Mr. Garofalo.

Mr. Busa said that the capital amount was not usually one of the first numbers to be put in place in the budget. "We don't have the Capital Committee's opinion on anything. To increase it by that percentage...I can't see it yet."

Ms. Perry, who serves as an ex-officio voting member of Capital Expenditures, said she was also uncomfortable with the \$2M figure. "Capital Expenditures Committee really needs to vet the projects before we can know what the number we need is. We're going to be talking more about process [at future meetings] but right now we don't have one in place for the 6-year model."

Ms. McClung asked about redundant items on the Capital list. It was explained that there are instances where several projects have been proposed to address certain problems but only one solution would ultimately be chosen. At that point, the "redundant" projects would be eliminated.

Mr. Thomas said the discussion about whether or not to increase Capital deserves thorough attention, at a meeting in the future. Mr. Garofalo said that Mr. Reed was in attendance in order to initiate that conversation.

A dialog about what assumptions should and should not be made in a preliminary model took place with Mr. Busa voicing his opinion that the FY16 model should begin where the FY15 model left off.

It was pointed out that FinCom has not yet determined the "guideline number" by which Town departments calculate their budgets. Mr. Garofalo said the guideline number would be set by the 3rd week in November. "We'll have a ton of discussions between now and then; this is just a starting point", Mr. Garofalo said.

Explaining the process to new members who have not yet being through the budget cycle, Mr. Steele said, "After we plug in all our known variables in the model, we will have a budget surplus or deficit. That's the target growth rate. [Through the guideline], we allocate that to the respective departments."

Mr. Busa further explained, "We're saying there's \$1.9M to allocate towards everyone's budget growth. If we leave more money in Unused Levy capacity, that number goes down. If we put Capital back to where Capital was, that number goes up. So it's a moving target constantly. What we want to do is our best assumptions, prior to doing guidelines."

Mr. Steele cautioned that some adjustments were made during the year to some department budgets due to exceptional circumstances and those would have to be corrected before baseline budgets upon which to grow are determined.

Mr. Garofalo said he knew that the Committee was waiting for Free Cash to be certified but cautioned that Free Cash should not be used to balance an Operating Budget; it should be considered one-time revenue. "If you use a non-recurring revenue source to balance an Operating Budget, you're setting yourself up next year because you're going to have to find that money in other ways. A non-recurring revenue source could be used for things like OPEB, Capital, Sick-leave Buyback, Stabilization Fund."

Mr. Busa argued that the salary portion of the Operating Budget could go down and that increases in the Operating Budget are a choice Bedford makes to maintain or grow the number of employees. Mr. Garofalo reported that contracts now being negotiated on the Town side are "settling well below what

the growth of this town is.” Mr. Busa agreed that the Town Manager has “always done an exceptional job at settling contracts.”

Going back to the Capital assumption of \$2M, Mr. Steele said, without a lengthy discussion, he’d like to see the figure go back to this year’s allocation as a starting point. Mr. Thomas agreed in principle but added, “I’d like to hear what the Town Manager came here tonight to tell us.”

To start the presentation, Mr. Garofalo showed a graph of Capital-funded projects as a compared to the Operating Budget. Going back to 2000, he noted that the Capital article was at that time \$1.8M and represented 4.79% of the total Operating Budget. Moving to 2015, Mr. Garofalo noted that the Capital article is \$1.4M which is 1.78% of Operating.

Then, Mr. Garofalo showed a graph that included all types of Capital allocation, including Community Preservation, debt, roads, water and sewer.

Moving then to the Operating Budget, Capital expenditures in 2000 were 15.8% or about \$6.5M. In 2015, as a percentage of the budget, Capital expenditures were at 12.85% or \$10.5M. “So, yes, Capital has grown over time but from a percentage of the Operating Budget, it has decreased.”

Mr. Busa said that the ten years before 2000, “we let every single building in the entire town collapse and we had to rebuild the infrastructure. We would hope that we built the buildings nice enough that we wouldn’t have to replace them that quickly. The Capital expenditures should start to go down a little, according to a percentage of the budget. We still have to maintain the buildings, but we don’t have to spend another \$50M on another high school. That’s a huge percentage we spent on Capital that can go away.”

Mr. Reed said the high school was bonded over 20 years and Mr. Garofalo pointed out the peak debt associated with that borrowing, which has passed.

Mr. Busa said, with the peak behind the Town, it was logical that the debt percentage would go down. “We knew it would go down. We want it to go down. We promised it would go down.”

Returning to the graph showing this year’s debt ratio at 12.85%, Mr. Reed said the plan developed for long-term Capital expenditures by administrative staff “maintains that percentage at 12.6% when we go through the [coming] period of time. That’s still below 15% back in 2000.”

Ms. McClung said she is not comfortable with an assumed 3.5% growth per year assumption. Mr. Busa agreed.

Mr. Reed said there had been years when the budget grew at a greater pace and years when the budget grew by less. “If you average it out, it’s grown at 3.88%,” Mr. Garofalo said. “In total, if you add in all the fixed components, it’s grown at 4.2%. Health care has been the killer.”

Mr. Steele said the graph shows the Town’s debt going from a current level of 12.85% to 14.29%. Mr. Garofalo agreed. “Yes, there are a few things that are increasing, not just the Capital article but Chapter 90 money, road resurfacing increase, and a little bit of bonding.”

Mr. Reed said the staff developed a model for a reasonable percentage of expenditure. The new Capital asset system also calculates how much the Town should be investing. "My belief is, we haven't been investing enough in the last few years. In real dollars, the amount that we spend on Capital is less than what we spent 15 years ago. Several months ago, we added up all the assets and came to a number of several million dollars per year that we really needed to invest in our infrastructure in order to maintain it on an ongoing basis. A Capital article of \$1.4M is not enough. We need to do better. We don't want to dig the Town into a hole over time. It's not just tax levy, it's also a combination of managing our debt and capitalizing on the value that Community Preservation brings to us."

Mr. Steele asked Mr. Reed what areas the Town had not invested enough in. Mr. Reed responded: roads, water and sewer projects, and building and building equipment maintenance. "We did such a good job to bring them up to the level they're at now," he added.

Mr. Steele asked how much was planned for roads in FY16, including Chapter 90 funds. Mr. Reed replied that the number is \$1.5M. Based on past input from the DPW, Mr. Steele asked whether there is sufficient capacity to manage that amount of roadwork, although the projects are contracted to outside companies. "The DPW participated in developing these numbers," Mr. Reed replied.

Mr. Reed added that the Town is probably spending over \$1M now on roads so \$1.5M did not represent much of an increase.

Mr. Garofalo said three school space needs projects (based on increases in enrollment) are included in the assumptions for Capital expenditures. The St. Michael's natural turf athletic field is another project. School IT technology is a third.

Ms. McClung said she thinks it's good to look out 6 years but she has concerns about the process and about whether projects will be vetted sufficiently. Speaking specifically about School Committee meetings she's attended as FinCom liaison, Ms. McClung said, "What it feels like is that there's some kind of approval being given now to what's in the plan with no vetting. Are we rubberstamping all of this stuff? Is there going to be prioritization? What's making me uncomfortable is that there's not a lot of conversation about the projects."

Mr. Carluccio responded to Ms. McClung by saying that citizens on several different committees took the time to work on the 6-year plan and that no one is rubberstamping anything. "We have to be careful not to discourage people from planning. Just because you go to a School Committee meeting where everything has to be done according to Open Meeting rules...they have to be free to talk about it. Eventually, everything will get vetted. Given the way the Town works, we're going to vet everything over and over again. We have to be careful not to discourage people from doing their jobs. We shouldn't be alarmist about some of these issues."

Ms. Perry agreed that CapEx would vet everything and not rubberstamp. "We haven't agreed on a process yet because there are six years to look at now instead of just one."

Ms. Perry said if Committee members have concerns they should email her their thoughts so that she can take them to CapEx. She added that it was important to understand that neither CapEx or

Community Preservation make up projects: they vet proposals that have been vetted beforehand by other boards and committees before being submitted.

Mr. Reed said the Town is trying to get away from doing things a year at a time. “What we’re trying to do is vet an entire 6-year plan every year. Theoretically, if we can get this off the ground— with a little bit of confidence and support from the Town boards and committees— what will eventually happen is the projects that come up every year will have been talked about for several years in a row and all the questions that need to be asked will be answered by the time you get to the year at hand.”

He continued: “It should become easy to predict what the Capital needs are because we’ll have seen it for a while. The problem is that CapEx does not have a role in determining the revenue side of the equation. Anytime you do a budget, you need to have both the expenditure side and the revenue side. What you as a committee need to do is take a look at the big picture look to see what we need to expend to maintain our infrastructure, and then assess whether or not the revenue can be provided.

“If we only do this one year at a time, and you only decide on giving \$1.5 or \$2M this year, then we’re not going to be able to structure a Capital Plan because what we need to know from you is that you’re willing to support some series of numbers over six years. We can only make decisions about where and when to place projects if we have the confidence in the amount of money that’s going to be there in each of those future years.”

Mr. Reed said that a lot of time had been spent to get all known projects into the model. “I don’t believe there are any big surprises that are not in the model....We’ve looked at the history. We cut the Capital budget when we were having tough economic times. We’re fooling ourselves if we don’t increase the amount we spend on Capital. I truly believe \$2M is appropriate.”

Agreeing that this preliminary Capital discussion was a healthy start to a continuing conversation, Mr. Reed asked the Committee for guidance about the level of debt it wants to Town to manage to. He said he would research other town’s debt ratios and also ask the bonding agencies for input.

New Business: Mr. Carluccio asked for a full-year accounting of special and trust funds. Mr. Garofalo said he would provide the information. The information, he said, would include all the recently zeroed-out accounts.

Mr. Thomas asked for a future agenda item on the financial policies that have been in place for two years. Mr. Steele agreed, saying said he believes the policies should be reviewed annually.

The final STM recommendations will be determined at the October 30th meeting.

Meetings attended: Mr. Thomas attended the Selectmen’s meeting. He reported that the Selectmen approved moving ahead with natural turf fields on St. Michael’s land and that wetlands mitigation was a first step in the process. There is no plan at this time to light the fields. The project is in the Capital Plan for \$1.6M.

Springs Brook Park may be transformed into a pool facility due to ongoing water clarity issues in the pond. A survey was done that showed citizen support for a pool but also a reluctance to pay for a membership pass to use the pool.

Mr. Powell attended the Planning Board meeting and reported that a cluster housing development on Irene Road received a special permit.

Attorney Pam Brown also asked the Board to release covenant funds for Athena Lane. The request was granted pending DPW confirmation that the final punch list had been completed.

An installation in a case study on cottage housing was presented.

Instrumentation Labs has scheduled a site plan review so that it can improve the Hartwell Road property.

The developer of Freedom Estates has not finished the last items on the punch list, thus causing concern that a vote to accept the development's streets may not take place at ATM as planned. \$63,000 in contingencies is being held until all work has been satisfied.

A previously approved fence between the Blue Ribbon plaza and the Marshalls/Whole Foods plaza was determined, after discussion, to be optional. A walking path between the two properties has been created.

Ms. McClung attended the School Committee meeting saying that Facilities Director Asani reported about energy-saving strategies and projects.

Class size was another topic. At the high school, one class is at 26, three are at 27, and one is at 35. All other classes are at 25 or below and no classes are under 10. Elementary School classes are mostly within the guidelines. JGMS has nine classes or 25. A huge spike in enrollment numbers is not expected next year.

Ms. Perry attended CapEx where the need for a 6-year Capital process was addressed. DPW Director Sorenson did a presentation about his department's Capital requests, not including roads and vehicles. Those components will be presented in the future.

Ms. Perry also attended the Community Preservation meeting and sent her report to the Committee by email.

Minutes: Ms. Perry made a motion to accept the minutes of October 9 as amended. Mr. Busa seconded. The motion passed 8-0-0.

Adjournment: Mr. Mortenson made a motion to adjourn. Mr. Busa seconded. The motion passed 8-0-0.

Respectfully submitted,
Kim Siebert, FinCom Recording Secretary